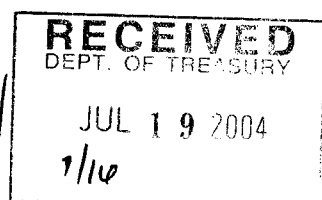


25-7534

CLIO AREA FIRE AUTHORITY

CLIO, MICHIGAN

REPORT FOR THE YEAR ENDED MARCH 31, 2004



AUDITING PROCEDURES REPORT

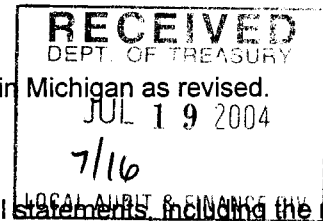
Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other	Local Government Name Clio Area Fire Authority	County Genesee
Audit Date March 31, 2004	Opinion Date May 5, 2004	Date Accountant Report Submitted to State: JULY 15, 2004

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.



We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGR).			X
Certified Public Accountant (Firm Name)	Lewis & Knopf, P.C.		
Street Address	5206 Gateway Centre – Suite 100 City	Flint	State MI Zip 48507
Accountant Signature			



Lewis & Knopf, CPAs, P.C.

"Serving You with Trust and Integrity"

May 5, 2004

INDEPENDENT AUDITOR'S REPORT

To the Administrative Board of the
Clio Area Fire Authority

We have audited the accompanying financial statements of the governmental activities and each major fund of Clio Area Fire Authority, as of and for the year ended March 31, 2004. These financial statements are the responsibility of the Clio Area Fire Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Clio Area Fire Authority as of March 31, 2004, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Authority has implemented a new financial reporting model, as required by the provisions of the *GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of April 1, 2003, along with all related statements and interpretations.

The management's discussion and analysis and budgetary comparison information on pages II - VII and 13 - 14 are not required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Clio Area Fire Authority's basic financial statements. The accompanying other supplementary information, as identified, in the table of contents is presented for purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lewis & Knopf P.C.
LEWIS & KNOPF, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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CLIO AREA FIRE AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED MARCH 31, 2004

As management of the Clio Area Fire Authority, we offer readers of the Clio Area Fire Authority's financial statements this narrative overview and analysis of the financial activities of the Clio Area Fire Authority for the fiscal year ended March 31, 2004. In the future, comparative analysis will be provided when prior year information becomes available.

FINANCIAL HIGHLIGHTS

- A. The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$1,155,230 (net assets).
- B. The government's total net assets increased by \$4,808.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Clio Area Fire Authority's basic financial statements. The Authority's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary and additional information in addition to the basic financial statements themselves.

Government-Wide Financial Statements:

The *government-wide financial statements* are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Authority's assets and liabilities, with the difference between the two reports as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. delinquent personal property taxes).

Both of the government-wide financial statements distinguish functions of the Authority that are principally supported by taxes and intergovernmental revenues from other functions that are intended to recover all or a significant portion of their costs through user fees and charges.

The government-wide financial statements can be found on pages 1 and 2 of this report.

Fund Financial Statements:

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Authority can be divided into two categories: governmental funds and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

CLIO AREA FIRE AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED MARCH 31, 2004

Fund Financial Statements: (Continued)

Governmental Funds (Continued)

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Authority maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the operation & maintenance fund and capital fund, both of which are considered to be major funds.

The Authority adopts an annual appropriated budget for its operation & maintenance fund and capital fund. Budgetary comparison statements have been provided for the operation & maintenance fund and capital fund in the required supplementary information.

The basic governmental fund financial statements can be found on pages 3 through 4 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those fund are *not* available to support the Authority's own programs.

The basic fiduciary fund financial statements can be found on pages 5 through 6 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 7 through 12 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents supplementary information. The supplementary information can be found on pages 15 through 17 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the government's financial position. In the case of the Authority, assets exceed liabilities by \$1,155,230 at the close of the most recent fiscal year.

The Authority's net assets (25%) reflects its investment in capital assets (e.g., land, building, machinery, infrastructure and equipment), less and related debt used to acquire those assets that is still outstanding. The Authority uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CLIO AREA FIRE AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED MARCH 31, 2004

Clio Area Fire Authority's Net Assets

NET ASSETS SUMMARY

ASSETS

Current Assets	\$932,684
Capital Assets	<u>539,953</u>

TOTAL ASSETS

\$1,472,637

LIABILITIES

Current Liabilities	\$191,964
Long-Term Liabilities	<u>125,443</u>
Total Liabilities	<u>\$317,407</u>

NET ASSETS

Invested in Capital Assets - Net of Related Debt	289,067
Reserved - Subsequent Years Expenditures	469,285
Unrestricted	<u>396,878</u>
Total Net Assets	<u>\$1,155,230</u>

TOTAL LIABILITIES AND NET ASSETS

\$1,472,637

During fiscal year ended March 31, 2004, the Authority's net assets increased by \$4,808.

Debt, Principal Payments

The Authority made principal payments on long term debt obligations that reduced the amount of the Authority's long term liabilities as follows:

	Principal Balance 4-1-03	Increases 3-31-04	Principal Payments 3-31-04	Principal Balance 3-31-04
Note Payable	<u>\$376,328</u>	<u>\$0</u>	<u>\$125,442</u>	<u>\$250,886</u>

Net Investment in Capital Assets

The Authority's net investment in capital assets decreased by \$(127,225) during the fiscal year. This can be summarized as follows:

	BALANCE JUNE 30, 2002	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2003
Capital Assets	\$1,636,011	\$0	\$0	\$1,636,011
Less: Accumulated Depreciation	(968,833)	(127,225)	0	(1,096,058)
<u>Net Investment Capital Outlay</u>	<u>\$667,178</u>	<u>(\$127,225)</u>	<u>\$0</u>	<u>\$539,953</u>

CLIO AREA FIRE AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED MARCH 31, 2004

RESULTS OF OPERATIONS:

For the fiscal years ended March 31, 2004, the Government-wide results of operations were:

REVENUES

Program Revenues:

Charges for Services	\$3,275
Operating Grants & Contributions	10,014
Total Program Revenues	<u>\$13,289</u>

General Revenues:

Property Taxes Levied for General Operations	469,286
Investment Earnings	13,430
Other General Revenues	3
Total General Revenues	<u>\$482,719</u>
Total Revenues	<u>\$496,008</u>

EXPENSES

General Government	356,376
Interest on Long-Term Debt	7,599
Depreciation	127,225
Total Expenses	<u>\$491,200</u>

<u>INCREASE IN NET ASSETS</u>	<u>\$4,808</u>
-------------------------------	----------------

<u>BEGINNING NET ASSETS</u>	<u>1,150,422</u>
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<u>ENDING NET ASSETS</u>	<u>\$1,155,230</u>
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OPERATION & MAINTENANCE FUND BUDGET & ACTUAL REVENUES & EXPENDITURES

OPERATION & MAINTENANCE FUND REVENUE BUDGET VS. ACTUAL

<u>Fiscal Year</u>	<u>Revenues Original Budget</u>	<u>Revenues Final Budget</u>	<u>Revenues Final Actual</u>	<u>Revenues Variance Actual & Original Budget</u>	<u>Revenues Variance Actual & Final Budget</u>
2003-2004	\$338,679	\$338,679	\$366,421	8.19	8.19

CLIO AREA FIRE AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED MARCH 31, 2004

OPERATION & MAINTENANCE FUND BUDGET & ACTUAL REVENUES & EXPENDITURES

OPERATION & MAINTENANCE FUND EXPENDITURES BUDGET VS. ACTUAL

<u>Fiscal Year</u>	<u>Expenditures Original Budget</u>	<u>Expenditures Final Budget</u>	<u>Expenditures Final Actual</u>	<u>Expenditures Variance Actual & Original Budget</u>	<u>Expenditures Variance Actual & Final Budget</u>
2003-2004	\$332,210	\$340,674	\$330,827	0.42	2.89

Original vs. Final Budget:

The Uniform Budget Act of the State of Michigan requires that the Authority approve the original budget for the upcoming fiscal year prior to April 1, the start of the fiscal year.

		%
Total Revenues Original Budget	\$338,679	
Total Revenues Final Budget	<u>338,679</u>	
<u>Increase in Budgeted Revenues</u>	<u>\$0</u>	0.00%

The Authority's final, actual general fund revenues differed from final budget by \$27,742, a variance of 8.19 percent from final budget.

Operation & Maintenance Fund Expenditures:

The Authority's budget for expenditures changed as follows during the year:

		%
Total Expenditures Original Budget	\$332,210	
Total Expenditures Final Budget	<u>340,674</u>	
<u>(Increase) in Budgeted Expenditures</u>	<u>(\$8,464)</u>	-2.55%

As indicated above, the Authority's actual expenditures were more than final budget by \$9,847, a variance of 2.89 percent from final budget.

CAPITAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES

CAPITAL FUND REVENUE BUDGET VS. ACTUAL

<u>Fiscal Year</u>	<u>Revenues Original Budget</u>	<u>Revenues Final Budget</u>	<u>Revenues Final Actual</u>	<u>Revenues Variance Actual & Original Budget</u>	<u>Revenues Variance Actual & Final Budget</u>
2003-2004	\$117,892	\$117,892	\$129,587	9.92	9.92

CLIO AREA FIRE AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED MARCH 31, 2004

CAPITAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES

CAPITAL FUND EXPENDITURES BUDGET VS. ACTUAL

<u>Fiscal Year</u>	<u>Expenditures Original Budget</u>	<u>Expenditures Final Budget</u>	<u>Expenditures Final Actual</u>	<u>Expenditures Variance Actual & Original Budget</u>	<u>Expenditures Variance Actual & Final Budget</u>
2003-2004	\$155,617	\$156,317	\$150,990	2.97	3.41

Original vs. Final Budget:

The Uniform Budget Act of the State of Michigan requires that the Authority approve the original budget for the upcoming fiscal year prior to April 1, the start of the fiscal year.

Total Revenues Original Budget	\$117,892	%
Total Revenues Final Budget	<u>117,892</u>	
<u>Increase in Budgeted Revenues</u>	<u>\$0</u>	0.00%

The Authority's final, actual capital fund revenues differed from final budget by \$11,695, a variance of 9.92 percent from final budget.

Capital Fund Expenditures:

The Authority's budget for expenditures changed as follows during the year:

Total Expenditures Original Budget	\$155,617	%
Total Expenditures Final Budget	<u>156,317</u>	
<u>(Increase) in Budgeted Expenditures</u>	<u>(\$700)</u>	-0.45%

As indicated above, the Authority's actual expenditures were more than final budget by \$5,327, a variance of 3.41 percent from final budget.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens and taxpayers with a general overview of the Authority's finances. If you have questions about this report or need additional information, contact the Business Office, Clio Area Fire Authority.

CLIO AREA FIRE AUTHORITY - CLIO, MICHIGAN
STATEMENT OF NET ASSETS
MARCH 31, 2004

	<u>Governmental Activities</u>
<hr/>	
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash and Cash Equivalents	\$731,576
Due From Other Governmental Units	201,108
Total Current Assets	<u>\$932,684</u>
<u>NON-CURRENT ASSETS</u>	
Capital Assets	1,636,011
Less: Accumulated Depreciation	<u>(1,096,058)</u>
Total Noncurrent Assets	<u>\$539,953</u>
<u>TOTAL ASSETS</u>	<u>\$1,472,637</u>
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	57,745
Payroll Liabilities	1,177
Accrued Interest	7,599
Current Portion of Long-Term Obligations	<u>125,443</u>
Total Current Liabilities	<u>\$191,964</u>
<u>NON-CURRENT LIABILITIES</u>	
Noncurrent Portion of Long-Term Obligations	<u>125,443</u>
<u>TOTAL LIABILITIES</u>	<u>\$317,407</u>
<u>NET ASSETS</u>	
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	289,067
Restricted for Subsequent Expenditures	469,285
Unrestricted	<u>396,878</u>
<u>TOTAL NET ASSETS</u>	<u><u>\$1,155,230</u></u>

See accompanying notes to the basic financial statements.

CLIO AREA FIRE AUTHORITY - CLIO, MICHIGAN
STATEMENT OF ACTIVITIES
MARCH 31, 2004

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue & Change in Net Assets</u>
		<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	
Governmental Activities:				
Public Safety	\$483,601	\$3,275	\$10,014	(\$470,312)
Interest on Long-Term Obligations	7,599	0	0	(7,599)
<u>TOTALS</u>	<u>\$491,200</u>	<u>\$3,275</u>	<u>\$10,014</u>	<u>(\$477,911)</u>
General Revenues:				
Property Taxes				469,286
Investment Earnings				13,430
Miscellaneous				3
Total General Revenues and Transfers				<u>\$482,719</u>
Change in Net Assets				\$4,808
Net Assets - Beginning - As Restated				<u>1,150,422</u>
<u>Net Assets - Ending</u>				<u>\$1,155,230</u>

See accompanying notes to the basic financial statements.

CLIO AREA FIRE AUTHORITY - CLIO, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
MARCH 31, 2004

	Operation & Maintenance Fund	Capital Fund	Total Governmental Funds
<u>ASSETS</u>			
Cash and Cash Equivalents	\$160,649	\$570,927	\$731,576
Due from Other Funds	300,351	0	300,351
Due From Other Governmental Units			
Clio	30,921	10,307	41,228
Vienna Township	15,075	5,025	20,100
Thetford Township	104,835	34,945	139,780
<u>TOTAL ASSETS</u>	<u>\$611,831</u>	<u>\$621,204</u>	<u>\$1,233,035</u>
<u>LIABILITIES</u>			
Accounts Payable	\$57,745	\$0	\$57,745
Due to Other Funds	0	300,351	300,351
Payroll Liabilities	1,177	0	1,177
Total Liabilities	<u>\$58,922</u>	<u>\$300,351</u>	<u>\$359,273</u>
<u>FUND BALANCES</u>			
Restricted for Subsequent Expenditures	351,964	117,321	469,285
Unreserved	200,945	203,532	404,477
Total Fund Balances	<u>\$552,909</u>	<u>\$320,853</u>	<u>\$873,762</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$611,831</u>	<u>\$621,204</u>	<u>\$1,233,035</u>

See accompanying notes to the basic financial statements.

CLIO AREA FIRE AUTHORITY - CLIO, MICHIGAN
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
MARCH 31, 2004

Total Governmental Fund Balances:	\$873,762
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$1,636,011 and the accumulated depreciation is \$1,096,058	539,953
Accrued Interest on Long-Term Debt	(7,599)
Long-term liabilities, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:	
Notes Payable	<u>(250,886)</u>
<u>TOTAL NET ASSETS -</u> <u>GOVERNMENTAL ACTIVITIES</u>	<u>\$1,155,230</u>

CLIO AREA FIRE AUTHORITY - CLIO, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2004

	Operation & Maintenance Fund	Capital Fund	Total Governmental Funds
<u>REVENUES</u>			
Contributions From Local Units	\$351,964	\$117,322	\$469,286
Cost Recovery	3,275	0	3,275
Donations	3,150	0	3,150
Grants	6,864	0	6,864
Earnings on Investments and Deposits	1,165	12,265	13,430
Other Income	3	0	3
Total Revenues	\$366,421	\$129,587	\$496,008
<u>EXPENDITURES</u>			
Operation and Maintenance	330,827	0	330,827
Vehicle Maintenance	0	11,637	11,637
Capital Outlay	0	139,353	139,353
Total Expenditures	\$330,827	\$150,990	\$481,817
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$35,594	(\$21,403)	\$14,191
<u>FUND BALANCE - BEGINNING</u>	517,315	342,256	859,571
<u>FUND BALANCE - ENDING</u>	\$552,909	\$320,853	\$873,762

See accompanying notes to the basic financial statements.

CLIO AREA FIRE AUTHORITY - CLIO, MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2004

Total net change in fund balances - governmental funds	\$14,191
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	(127,225)
Repayments of principal on long-term debt is an expenditure in the governmental funds, but no in the statement of activities (where it is a reduction of liabilities)	125,441
Change in accrued interest on long-term liabilities	<u>(7,599)</u>
<u>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</u>	<u>\$4,808</u>

CLIO AREA FIRE AUTHORITY - CLIO, MICHIGAN
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
MARCH 31, 2004

	<u>Trust & Agency</u>
<u>ASSETS</u>	
Investments	<u>\$125,641</u>
<u>TOTAL ASSETS</u>	<u>\$125,641</u>
<u>LIABILITIES</u>	
Due to Fire Fighters	<u>\$125,641</u>
<u>TOTAL LIABILITIES</u>	<u>\$125,641</u>

See accompanying notes to the basic financial statements.

CLIO AREA FIRE AUTHORITY - CLIO, MICHIGAN
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
MARCH 31, 2004

	<u>Trust & Agency</u>
<u>ADDITIONS</u>	
Investment Income	\$24,035
Contributions from Operation & Maintenance Fund	<u>17,500</u>
Total Additions	\$41,535
 <u>NET ASSETS - BEGINNING OF YEAR</u>	 <u>84,106</u>
 <u>NET ASSETS - END OF YEAR</u>	 <u>\$125,641</u>

See accompanying notes to the basic financial statements.

CLIO AREA FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004

1) DESCRIPTION OF FIRE AUTHORITY OPERATIONS AND FUND TYPES

The Clio Area Fire Authority was formed in April 1976, by an agreement (joint venture) between the City of Clio, Vienna Township and Thetford Township, under the provisions of Act 33, Public Acts of 1951, as amended. The purpose of the Authority is to operate a fire department on a shared cost basis and provide adequate fire protection for residents of the three municipalities. The Authority is governed by a 7 member board appointed by the governing bodies of the participating members.

Reporting Entity

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity", the financial statements of the Clio Area Fire Authority contain all the Authority funds and account groups that are controlled by or dependent on the Authority's board members. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading, if data were not included.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Clio Area Fire Authority conform to generally accepted accounting principles as applicable to governmental entities. The following is a summary of the significant accounting policies:

In June 1999 the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. Certain of the significant changes in the Statement include the following:

A Management Discussion and Analysis (MD&A) section to provide an analysis of the Authority's overall financial position and results of operations.

Financial statements prepared with full accrual accounting for all of the Authority's activities.

- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements and notes to the financial statements.

A) BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The Authority's basic financial statements include both government-wide (reporting the Authority as a whole) and fund financial statements (reporting the Authority's major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the Authority's activities are classified as governmental activities. Fiduciary funds are not included in the government-wide financial statements.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis and is reported on a full-accrual economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Authority's net assets are reported in three parts: invested in capital assets net of related debt; restricted net assets; and unrestricted net assets. The Authority first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the Authority's functions. General government revenues also support the functions. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants. The net costs by function are normally covered by general revenue (property taxes, state and federal sources, interest income, etc.).

CLIO AREA FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) BASIC FINANCIAL STATEMENTS - FUND FINANCIAL STATEMENTS

The accounts of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements in this report, into two generic fund types and one broad fund category as follows:

GOVERNMENTAL FUNDS

General Fund – Operation & Maintenance Fund

The General Fund is the general operating fund of the Authority. It is used to account for all financial resources except those required to be accounted for in another fund.

Capital Fund

This fund's purpose is to use the contribution of a ¼ mill equivalent to purchase major firefighting equipment and vehicle maintenance.

At least ninety percent (90%) of all funds deposited shall be used exclusively for the purchase of major firefighting vehicles and an amount not greater than ten percent (10%) shall be used for vehicle maintenance.

FIDUCIARY FUND TYPES

Trust and Agency

These funds are held by the Authority in a trustee capacity or as an agent for individuals, private organizations, and other governmental units. These funds include the fire fighter recognition funds.

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Accrual

Governmental activity in the government-wide financial statements is presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within 60 days of year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

CLIO AREA FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS (Continued)

The Authority reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the Authority receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

D) CASH AND CASH EQUIVALENTS

The Authority considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price and investments that do not have an established market are reported at estimated fair value. Cash deposits are reported at carrying amount which reasonably estimates fair value.

E) CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

The fixed assets at inception of the Authority are being leased, at one dollar per year, from the three municipalities. The fixed assets acquired after the creation of the Authority, are purchased by and belong to the Fire Authority.

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities</u> <u>Estimated Lives</u>
Equipment	5 -- 10 years

F) INTERFUND BALANCES

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities columns of the statement of net assets.

CLIO AREA FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G) NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

H) ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

I) BUDGETS AND BUDGETARY ACCOUNTING

The Fire Chief prepares and submits a proposed operating budget for the General Operating Fund to the Fire Authority Board for its review and consideration. A public hearing is not held prior to the subsequent adoption of the operating budget by the Board. The Board approves all budget amendments. The Board of the Authority is required to submit an annual operating budget to the governing body of each municipality, prior to February 15th of each year.

3) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – BUDGET VIOLATIONS

P.A. 621 of 1978, Section 18 (1), as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Authority's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Authority for these budgetary funds were adopted to the functional level.

During the year ended March 31, 2004, the Authority incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated.

4) DEPOSITS AND INVESTMENTS

Deposits are carried at cost. Deposits of the Fire Authority are at one bank in the name of Clio Area Fire Authority. Michigan Compiled Laws (MCL), Section 129.91, authorizes a local unit to deposit and invest in the accounts of Federally insured banks, credit unions and savings and loan associations; bond securities, and other obligations of the United States, or an agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated by two standard rating agencies within the three highest classifications, which matures not more than 270 days after the date of purchase, and which involves no more than 50 percent of any one fund. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

At March 31, 2004, the carrying amount of the Authority's deposits was \$731,576 and the bank balance was \$735,712. \$210,931 of the bank balance was covered by federal depository insurance and \$524,781 was uninsured and uncollateralized.

CLIO AREA FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004

4) DEPOSITS AND INVESTMENTS (Continued)

The Fire Authority has \$125,641 in mutual fund investments managed by Delaware Management Company located outside of the State of Michigan. The nature of mutual funds, bonds funds, investment pools does not allow for risk categorization, which is in accordance with GASB Statement No. 3.

5) FIRE AUTHORITY INTER-LOCAL AGREEMENT

The Fire Authority Inter-Local Agreement provides that each municipality will provide such amounts as are necessary to cover 1/3 of the fixed operational costs. The amended agreement dated January 15, 1993, provides that each municipality contribute the equivalent of one mill of the state equalized valuation of real and personal property within their boundaries or an equal amount from the general fund by April 1st of each year. The equivalent of ¼ mill of the total shall be contributed to the capital fund. This method of funding was agreed to for a period of 15 years beginning on December 1, 1992 and ending November 30, 2007.

The agreement does not state any fixed shares of interest to be owned by the municipalities. However, if a municipality should withdraw from the Authority, the distribution of equipment or cash equivalent to the withdrawing unit's share shall be determined by unanimous consent of the members. Any of the members may withdraw from the Authority by giving written notice one year prior to withdrawal.

In addition, the Fire Authority Board is required to submit an annual operating budget to the governing body of each municipality, prior to February 15th of each year. The Secretary/Treasurer acts as the purchasing agent for the Fire Department.

6) DUE FROM OTHER UNITS OF GOVERNMENT

As of March 31, 2004, the Fire Authority had amounts due from other units of government as follows:

City of Clio	\$ 41,228
Vienna Township	20,100
Thetford Township	<u>139,780</u>
 <u>TOTAL</u>	 <u>\$ 201,108</u>

The above amounts represent the remaining uncollected one mill tax equivalents due.

7) CAPITAL ASSETS

Capital asset activity for the fiscal year ended March 31, 2004, was as follows:

	<u>BALANCE</u> <u>4-1-03</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE</u> <u>3-31-04</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
Equipment	\$1,636,011	\$0	\$0	\$1,636,011
Less: Accumulated Depreciation				
Equipment	<u>(969,833)</u>	<u>(127,225)</u>	<u>0</u>	<u>(1,097,058)</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
<u>CAPITAL ASSETS - NET</u>	<u>\$666,178</u>	<u>(\$127,225)</u>	<u>\$0</u>	<u>\$538,953</u>

Depreciation expense was charge to functions/programs of the primary government as follows:

Public Safety \$127,225

CLIO AREA FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004

8) GENERAL LONG-TERM DEBT

Notes Payable – the Authority entered into an agreement to purchase a Pierce Dash fire truck chassis, aerial body and aerial platform, for a total purchase price of \$624,000.00. The note is payable in five annual installments of \$125,442.80 with interest at 4.83%. The note was refinanced February, 2003, at a new rate of 3.3%. The note is secured by the fire truck and matures on May 1, 2005.

	Balance 4-1-03	Additions	Deletions	Balance 3-31-04
Note Payable	\$ 376,328	\$ 0	\$ 125,442	\$ 250,886

	NOTE PAYABLE	INTEREST	TOTAL
March 31, 2005	\$125,443	\$8,279	\$133,722
March 31, 2006	125,443	345	125,788
<u>TOTAL</u>	<u>\$250,886</u>	<u>\$8,624</u>	<u>\$259,510</u>

9) RESTATEMENT OF GOVERNMENT-WIDE NET ASSETS

For the fiscal year ended March 31, 2004, the Authority implemented GASB Statement 34. As a result, capital assets and accumulated depreciation were recorded for the first time. Net assets were restated as of April 1, 2003 for the recording of accumulated depreciation. See April 1, 2003 balances illustrated in Note 7.

10) INTERFUND ACTIVITY

Interfund activity at March 31, 2004 consisted of the following:

DUE FROM	
DUE TO	Operation & Maintenance Fund
Capital Fund	\$300,351

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

11) FUND BALANCE RESERVES

In accordance with the Inter-Local Fire Authority Agreement, the contributions from local units to be received by April 1 of each year are to be used for the subsequent years budget. Therefore, the contributions received or receivable at March 31st are reserved for the subsequent years expenditures.

12) CONTINGENCIES

In the ordinary course of business, the Authority is involved in various pending or threatened legal actions. The Authority believes that any ultimate liability arising from these actions will not have a material adverse effect on its financial position.

REQUIRED
SUPPLEMENTARY
INFORMATION

CLIO AREA FIRE AUTHORITY - CLIO, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
OPERATION & MAINTENANCE FUND
FOR THE YEAR ENDED MARCH 31, 2004

	<u>Budgeted Amounts</u>			<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final Budget</u>
<u>REVENUES</u>	\$338,679	\$338,679	\$366,421	\$27,742
<u>EXPENDITURES</u>				
Operation and Maintenance	<u>332,210</u>	<u>340,674</u>	<u>330,827</u>	<u>9,847</u>
Excess of Revenues Over Expenditures	<u>\$6,469</u>	<u>(\$1,995)</u>	<u>\$35,594</u>	<u>\$37,589</u>
<u>FUND BALANCE - BEGINNING</u>			<u>517,315</u>	
<u>FUND BALANCE - ENDING</u>			<u>\$552,909</u>	

CLIO AREA FIRE AUTHORITY - CLIO, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
CAPITAL FUND
FOR THE YEAR ENDED MARCH 31, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>	\$117,892	\$117,892	\$129,587	\$11,695
<u>EXPENDITURES</u>				
Vehicle Maintenance	12,000	12,700	11,637	1,063
Capital Outlay	143,617	143,617	139,353	4,264
Total Expenditures	<u>\$155,617</u>	<u>\$156,317</u>	<u>\$150,990</u>	<u>\$5,327</u>
Excess of Revenues Over Expenditures	(\$37,725)	(\$38,425)	(\$21,403)	\$17,022
<u>FUND BALANCE - BEGINNING</u>			<u>342,256</u>	
<u>FUND BALANCE - ENDING</u>			<u>\$320,853</u>	

OTHER SUPPLEMENTAL
INFORMATION

CLIO AREA FIRE AUTHORITY - CLIO, MICHIGAN
OPERATION & MAINTENANCE FUND
SCHEDULE OF EXPENDITURES
FOR THE YEAR ENDED MARCH 31, 2004

EXPENDITURESOperation & Maintenance

Fire Prevention	\$356
Training	8,664
Wages & Salaries	128,469
Payroll Taxes	10,106
Board Members	4,080
Operating Supplies	1,430
Gasoline/Diesel	5,560
Audit and Bookkeeping	20,928
Legal	4,810
Contractual Services	1,202
Radio Maintenance	1,764
Telephone	4,590
Insurance	22,406
Recognition	17,500
Utilities	15,493
Building Maintenance	2,598
Miscellaneous	9,405
Dues and Memberships	655
Equipment Replacement	21,000
Equipment and Gear	49,811

TOTAL EXPENDITURES

\$330,827

CLJO AREA FIRE AUTHORITY - CLJO, MICHIGAN
CAPITAL FUND
SCHEDULE OF REVENUES AND EXPENDITURES

Year Ended	Contrib. From Local Units Actual	Capital Fund Ninety Percent	Vehicle Maintenance		Ten Percent Required Amount	Over (Under)	Major Capital Equipment	
			Actual	Percent	Amount		Amount	Description
3-31-95	\$285,388	\$64,212	\$5,119	1.79%	\$7,135	(\$2,016)	\$0	
3-31-96	293,988	66,147	8,487	2.89%	7,350	1,137	0	
3-31-97	308,049	69,311	5,006	1.63%	7,701	(2,695)	269,070	1997 Tanker
3-31-98	334,483	75,259	12,107	3.62%	8,362	3,745	0	
3-31-99	351,288	79,040	9,277	2.64%	8,782	495	0	
3-31-00	370,703	83,408	11,625	3.14%	9,268	2,357	0	
3-31-01	398,165	89,587	5,659	1.42%	9,954	(4,295)	30,466	Suburban
3-31-02	423,257	95,233	7,917	1.87%	10,581	(2,664)	135,454	Pierce Fire Truck Pmt
3-31-03	450,544	101,372	7,940	1.76%	11,264	(3,324)	32,932	Suburban
3-31-04	469,286	105,589	11,637	2.48%	11,732	(95)	125,443	Pierce Fire Truck Pmt
							4,060	Loan Refinance Fee
							125,443	Pierce Fire Truck Pmt
TOTALS	\$3,685,151	\$829,158	\$84,774	2.30%	\$92,129	(\$7,355)	\$722,868	

Amount to be paid on major firefighting vehicles - per agreement (90% of 25%) 22.5%. Vehicle Maintenance (10% of 25%) 2.5%.

\$3,685,151
22.50%
<u>\$829,158</u>
(722,868)
<u>\$106,290</u>
2,016
2,695
4,295
2,664
3,324
<u>95</u>
<u>\$121,379</u>

Less: Major Equipment

Add: Under Maintenance

BALANCE - 3-31-04



Lewis & Knopf, CPAs, P.C.

"Serving You with Trust and Integrity"

May 5, 2004

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education of
Clio Area Fire Authority

We have audited the financial statements of the governmental activities and each major fund, of Clio Area Fire Authority, as of and for the year ended March 31, 2004, which collectively comprise the Clio Area Fire Authority's basic financial statements and have issued our report thereon dated May 5, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Clio Area Fire Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Clio Area Fire Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Lewis & Knopf P.C.

LEWIS & KNOFF, P.C.

CERTIFIED PUBLIC ACCOUNTANTS